

DOUGLAS SCHOOL DISTRICT 51-1  
MEADE AND PENNINGTON COUNTIES, SOUTH DAKOTA

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2008

# DOUGLAS SCHOOL DISTRICT 51-1

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INDEPENDENT AUDITOR'S REPORT

School Board  
Douglas School District 51-1  
Meade and Pennington Counties, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT 51-1** (the District), Meade and Pennington Counties, South Dakota, as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 37 through 42, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

March 3, 2009

## **DOUGLAS SCHOOL DISTRICT 51-1**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008**

This section of Douglas School District 51-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

The District's net assets from governmental and business-type activities increased approximately \$800,000. The total cost of the District's programs increased approximately \$1,000,000.

The General Fund reported a surplus of \$1,790,000 due to a large transfer of Impact Aid funds. The Capital Outlay Fund reported a surplus of \$113,991 primarily due to a conservative budget. Finally, the Impact Aid Fund reported a deficit of \$44,526 due to large transfers of Impact Aid to other funds.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts—management's discussion and analysis (which is this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like businesses. The District's only proprietary funds are the Food Service Fund and Internal Service Funds.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. Most of these are school clubs or clearing accounts.

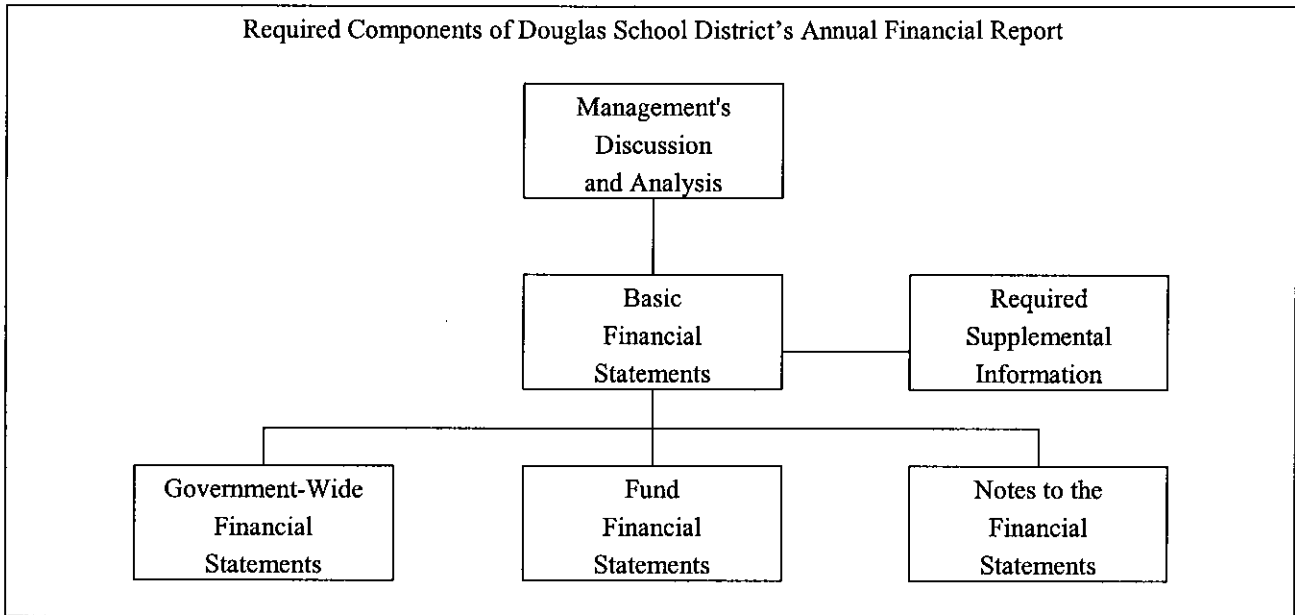
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

FIGURE A-1



Government-Wide Financial Statements:

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base, changes in the state school aid funding formula from the State of South Dakota, and changes in accounting laws for funds such as Impact Aid.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** – This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), extracurricular activities, (sports, music, etc.) and capital equipment purchases or the construction of buildings. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-Type Activities** – The District charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the District.

**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements:**

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds (such as the Capital Outlay and Special Education Funds).
- The District Board of Education establishes other funds to control and manage money for particular purposes (like the Health Insurance Internal Service Fund).

The District has three types of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can readily be converted into cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service and Internal Service Funds are the only Proprietary Funds the District maintains.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-2**

	<b>Government-wide Statements</b>	<b>Fund Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire School government (except fiduciary funds).	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to a private business- food service and internal service.	Instances in which the School is the trustee or agent for someone else's resources.
<b>Required Financial Statements</b>	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet Statement of Revenues, Expenses and Changes in Net Assets Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
<b>Type of Inflow/ Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Assets

The District's combined net assets increased as shown on Table A-1:

TABLE A-1

Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and Other Assets	\$ 23,081,570	\$ 25,080,140	\$ 346,833	\$ 313,881	\$ 23,428,403	\$ 25,394,021
Capital Assets	23,652,104	22,773,176	9,464	33,542	23,661,568	22,806,718
<b>Total Assets</b>	<b>\$ 46,733,674</b>	<b>\$ 47,853,316</b>	<b>\$ 356,297</b>	<b>\$ 347,423</b>	<b>\$ 47,089,971</b>	<b>\$ 48,200,739</b>
Long-Term Debt Outstanding	\$ 932,035	\$ 1,000,165	\$ -	\$ -	\$ 932,035	\$ 1,000,165
Other Liabilities	3,941,149	4,183,583	269	17	3,941,418	4,183,600
<b>Total Liabilities</b>	<b>4,873,184</b>	<b>5,183,748</b>	<b>269</b>	<b>17</b>	<b>4,873,453</b>	<b>5,183,765</b>
Net Assets:						
Invested in Capital Assets	23,652,104	22,773,176	9,464	33,542	23,661,568	22,806,718
Restricted	2,249,804	2,289,115	346,564	313,864	2,596,368	2,602,979
Unrestricted	15,958,582	17,607,277	-	-	15,958,582	17,607,277
<b>Total Net Assets</b>	<b>\$ 41,860,490</b>	<b>\$ 42,669,568</b>	<b>\$ 356,028</b>	<b>\$ 347,406</b>	<b>\$ 42,216,518</b>	<b>\$ 43,016,974</b>
Beginning Net Assets	\$ 39,884,998	\$ 41,860,490	\$ 341,141	\$ 356,028	\$ 40,226,139	\$ 42,216,518
Change in Net Assets	1,975,492	809,078	14,887	(8,622)	1,990,379	800,456
Percentage of Change in Net Assets	4.95%	1.93%	4.36%	-2.42%	4.95%	1.90%

Table A-1 illustrates an increase in overall net assets of 1.93 percent for governmental activities. Business-type activities decreased 2.42 percent from 2007 to 2008. The activities combined accounted for a total increase of 1.90 percent.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

Changes in Net Assets

The District's revenues totaled \$23,826,178. Approximately 32 percent of the District's revenue comes from Federal Sources, 37 percent from State Sources, and about 14 percent comes from taxes. (See Figure A-3.)

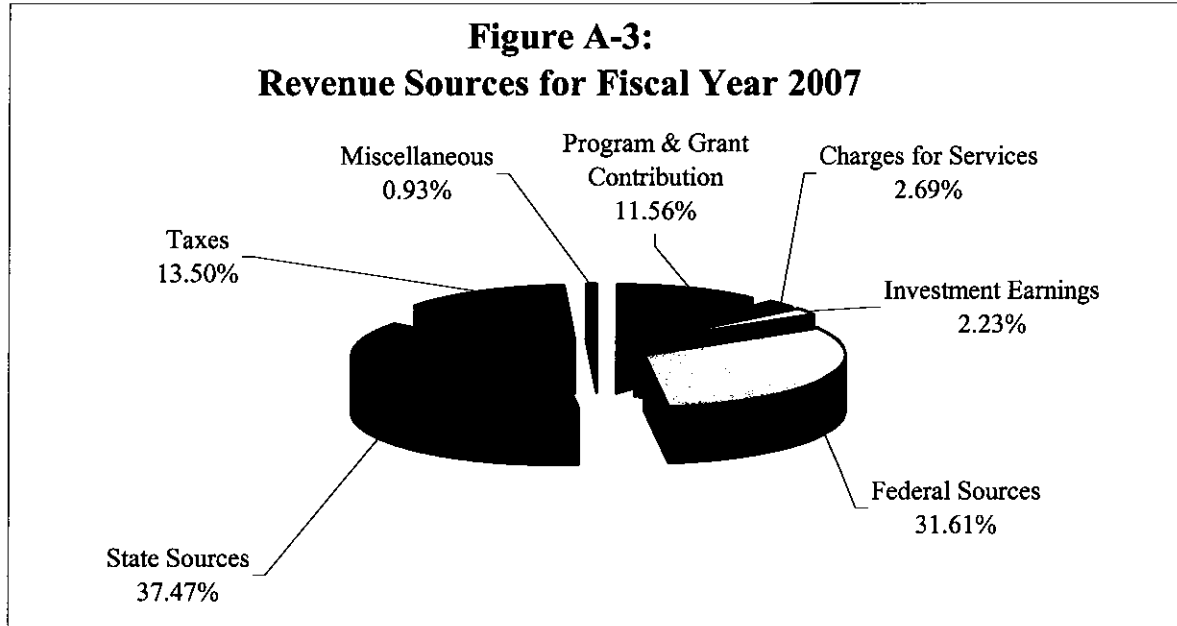
**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

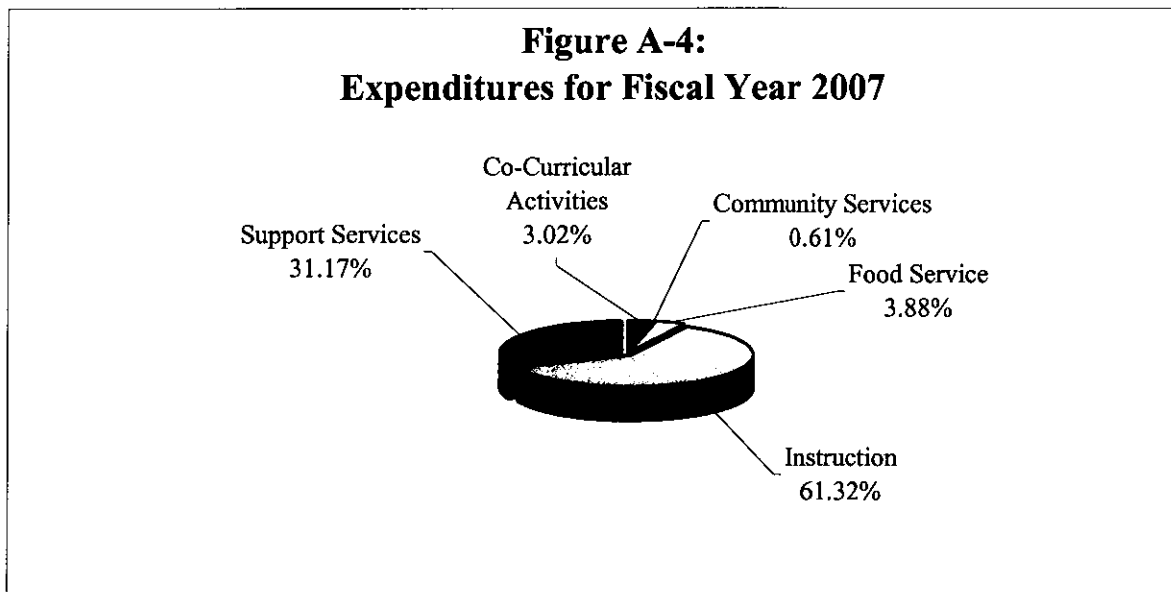
Changes in Net Assets (Continued)

FIGURE A-3



The District's expenses cover a wide range of services, but mainly cover instruction and support services. These account for approximately 93 percent of the total budget. (See Figure A-4.)

FIGURE A-4



**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

TABLE A-2

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Grand Total	
	2007	2008	2007	2008	2007	2008
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 179,162	\$ 173,719	\$ 411,808	\$ 466,659	\$ 590,970	\$ 640,378
Operating Grants and Contributions	2,471,605	2,322,688	391,595	419,143	2,863,200	2,741,831
Capital Grants and Contributions	373,549	12,635	-	-	373,549	12,635
General Revenues:						
Taxes	2,958,389	3,216,765	-	-	2,958,389	3,216,765
Revenue from State Sources	8,684,544	8,927,493	-	-	8,684,544	8,927,493
Revenue from Federal Sources	7,633,137	7,529,946	-	-	7,633,137	7,529,946
Other General Revenues	235,205	221,264	248	70	235,453	221,334
Unrestricted Investment Earnings	678,109	532,157	-	-	678,109	532,157
Gain on Sale	-	3,639	-	-	-	3,639
<b>Total Revenues</b>	<b>23,213,700</b>	<b>22,940,306</b>	<b>803,651</b>	<b>885,872</b>	<b>24,017,351</b>	<b>23,826,178</b>
<b>Expenses</b>						
Instruction	13,015,217	14,119,761	-	-	13,015,217	14,119,761
Support Services	7,555,923	7,176,240	-	-	7,555,923	7,176,240
Community Services	134,145	140,670	-	-	134,145	140,670
Co-curricular Activities	532,923	694,557	-	-	532,923	694,557
Food Service	-	-	788,764	894,494	788,764	894,494
<b>Total Expenses</b>	<b>21,238,208</b>	<b>22,131,228</b>	<b>788,764</b>	<b>894,494</b>	<b>22,026,972</b>	<b>23,025,722</b>
<b>Increase (Decrease) in Net Assets</b>	<b>1,975,492</b>	<b>809,078</b>	<b>14,887</b>	<b>(8,622)</b>	<b>1,990,379</b>	<b>800,456</b>
<b>Ending Net Assets</b>	<b>\$41,860,490</b>	<b>\$ 42,669,568</b>	<b>\$ 356,028</b>	<b>\$ 347,406</b>	<b>\$42,216,518</b>	<b>\$ 43,016,974</b>

Governmental Activities

The revenues for the governmental activities decreased due primarily to a decrease in operating and capital grants and contributions. The increase in expenditures is due primarily to the annual increases in salaries and benefits.

**DOUGLAS SCHOOL DISTRICT 51-1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)**

Business-Type Activities

Revenues of the District's business-type activities generated enough revenues to cover the costs associated with the Food Service program and to continue to establish a fund balance for the fund. This indicates that the combination of the federal reimbursement for meals and the price charged for meals and ala carte items is sufficient to run the program effectively and efficiently.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The General Fund balance increased by \$1,790,000 in the current year due to larger transfers from the Impact Aid Fund to the General Fund compared to the prior year. The other Governmental Funds only had minimal changes in fund balance as there was little difference from the previous year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the Douglas School District Board of Education made the following changes to the budget:

Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide items necessary for the education program of the District.

Increases in appropriations, primarily funded by Impact Aid, to prevent budget overruns in each fund.

The District's significant budget changes or variances for the year were due to unanticipated grant funding and related expenditures and unanticipated expenditures throughout the year.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2008, the District had invested over \$22 million (net of depreciation) in a broad range of capital assets, including land, buildings, various machinery and equipment, and construction in progress. This is a decrease of approximately \$878,000 from 2007 due to annual depreciation of approximately \$1.45 million and purchases or construction of approximately \$574,000. (See Table A-3.)

TABLE A-3

	<b>Capital Assets</b>			
	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Buildings	\$ 20,845,258	\$ 19,883,344	\$ -	\$ -
Improvements Other than Buildings	1,509,126	1,352,579	-	-
Equipment	992,115	978,526	9,464	33,542
Land	121,900	121,900	-	-
Construction Work in Progress	183,705	436,827	-	-
<b>Total Capital Assets, Net of Depreciation</b>	<b>\$ 23,652,104</b>	<b>\$ 22,773,176</b>	<b>\$ 9,464</b>	<b>\$ 33,542</b>

## **DOUGLAS SCHOOL DISTRICT 51-1**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) FOR THE YEAR ENDED JUNE 30, 2008**

#### **CAPITAL ASSET ADMINISTRATION (CONTINUED)**

The District's fiscal year 2008 capital projects consisted primarily of an irrigation project. The overall budget is significantly lower than in previous years due to little projected construction. The District has no plans to issue any debt to finance construction projects, but will use on-hand resources, such as Impact Aid, to finance them.

#### **LONG-TERM DEBT**

At year-end, the District had \$1,000,165 in obligations for compensated absences. The District's long term debt consists of vacation, voluntary separation, and severance pay (sick leave) liabilities.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's economic position has shown little change in the past few years. The District has experienced an increase in total property valuation of nearly 20 percent over the last year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes, but the total amount that can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation they receive from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal approximately \$4,529 per pupil. The allocation for the next year has been increased to \$4,664 per student. The District has experienced a steady enrollment from 2007 to 2008.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and other concerned individuals with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Douglas School District Business Office at 400 Patriot Drive, Box Elder, SD 57719.

**DOUGLAS SCHOOL DISTRICT 51-1**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS:</b>			
Cash and Cash Equivalents (Note 2)	\$ 22,529,081	\$ 286,698	\$ 22,815,779
Taxes Receivable (Note 4)	1,766,316	-	1,766,316
Due From State Government	469,604	-	469,604
Inventories (Note 3)	25,706	27,183	52,889
Other Receivables and Prepaid Expenses	289,433	-	289,433
Capital Assets (Note 5):			
Land	121,900	-	121,900
Buildings, Net of Depreciation	19,883,344	-	19,883,344
Improvements Other than Buildings, Net of Depreciation	1,352,579	-	1,352,579
Equipment, Net of Depreciation	978,526	33,542	1,012,068
Construction Work in Progress	436,827	-	436,827
<b>TOTAL ASSETS</b>	<b>\$ 47,853,316</b>	<b>\$ 347,423</b>	<b>\$ 48,200,739</b>
<b>LIABILITIES:</b>			
Other Current Liabilities	\$ 2,510,672	\$ 17	\$ 2,510,689
Deferred Revenue	1,672,911	-	1,672,911
Personnel Liabilities (Note 6):			
Due Within One Year	261,732	-	261,732
Due in More than One Year	738,433	-	738,433
<b>TOTAL LIABILITIES</b>	<b>5,183,748</b>	<b>17</b>	<b>5,183,765</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets	22,773,176	33,542	22,806,718
Restricted for:			
Capital Outlay	1,358,207	-	1,358,207
Special Education	208,949	-	208,949
Health Self-Insurance	721,959	-	721,959
Food Service	-	313,864	313,864
Unrestricted	17,607,277	-	17,607,277
<b>TOTAL NET ASSETS</b>	<b>42,669,568</b>	<b>347,406</b>	<b>43,016,974</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 47,853,316</b>	<b>\$ 347,423</b>	<b>\$ 48,200,739</b>

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 14,119,761	\$ 52,501	\$ 2,322,688	\$ -	\$ (11,744,572)	\$ -	\$ (11,744,572)
Support Services	7,176,240	-	-	12,635	(7,163,605)	-	(7,163,605)
Community Services	140,670	98,848	-	-	(41,822)	-	(41,822)
Co-Curricular Activities	694,557	22,370	-	-	(672,187)	-	(672,187)
Total Governmental Activities	22,131,228	173,719	2,322,688	12,635	(19,622,186)	-	(19,622,186)
Business-Type Activities:							
Food Service	894,494	466,659	419,143	-	-	(8,692)	(8,692)
Total Primary Government	\$ 23,025,722	\$ 640,378	\$ 2,741,831	\$ 12,635	\$ (19,622,186)	\$ (8,692)	\$ (19,630,878)

General Revenues

Taxes:			
Property Taxes	\$ 3,134,689	\$ -	\$ 3,134,689
Gross Receipts Taxes	82,076	-	82,076
Revenue from State Sources:			
State Aid	8,927,493	-	8,927,493
Revenue from Federal Sources	7,529,946	-	7,529,946
Unrestricted Investment Earnings	532,157	-	532,157
Other General Revenues	221,264	70	221,334
Gain on Sale	3,639	-	3,639
Total General Revenues	20,431,264	70	20,431,334
Change in Net Assets	809,078	(8,622)	800,456
Net Assets - Beginning	41,860,490	356,028	42,216,518
Net Assets - Ending	\$ 42,669,568	\$ 347,406	\$ 43,016,974

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
<b>ASSETS:</b>					
101 Cash and Cash Equivalents (Note 2)	\$ 3,921,526	\$ 1,148,369	\$ 149,956	\$ 16,338,868	\$ 21,558,719
110 Taxes Receivable--Current (Note 4)	980,059	469,757	223,965	-	1,673,781
112 Taxes Receivable--Delinquent (Note 4)	61,954	20,533	10,048	-	92,535
120 Accounts Receivable	3,752	-	-	-	3,752
135 Accrued Interest	1,125	682	-	25,416	27,223
140 Due from State/Federal Government	231,182	189,161	49,261	-	469,604
170 Inventory of Supplies (Note 3)	25,706	-	-	-	25,706
192 Prepaid Assets	245,669	-	-	-	245,669
<b>TOTAL ASSETS</b>	<b>\$ 5,470,973</b>	<b>\$ 1,828,502</b>	<b>\$ 433,230</b>	<b>\$ 16,364,284</b>	<b>\$ 24,096,989</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
402 Accounts Payable	\$ 39,603	\$ -	\$ -	\$ -	\$ 39,603
404 Contracts Payable	1,869,898	-	-	-	1,869,898
450 Payroll Deductions and Withholdings and Employer Matching Payable	442,676	-	-	-	442,676
474 Deferred Revenue (Note 1)	1,040,289	490,828	234,329	-	1,765,446
<b>Total Liabilities</b>	<b>3,392,466</b>	<b>490,828</b>	<b>234,329</b>	<b>-</b>	<b>4,117,623</b>
<b>Fund Balances:</b>					
701.2 Reserved for Inventory	25,706	-	-	-	25,706
701.9 Reserved for Prepaid Assets	245,669	-	-	-	245,669
704 Unreserved/Undesignated					
Fund Balances	1,807,132	1,337,674	198,901	16,364,284	19,707,991
<b>Total Fund Balances</b>	<b>2,078,507</b>	<b>1,337,674</b>	<b>198,901</b>	<b>16,364,284</b>	<b>19,979,366</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,470,973</b>	<b>\$ 1,828,502</b>	<b>\$ 433,230</b>	<b>\$ 16,364,284</b>	<b>\$ 24,096,989</b>

The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

Total Fund Balances - Governmental Funds \$ 19,979,366

Amounts reported for governmental activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in  
the funds. 22,773,176

Long-term liabilities, including vacation payable, severance  
payable, and voluntary separation payable, are not due in the  
current period and therefore are not reported in the funds. (1,000,165)

Delinquent taxes receivable are not available to pay for current  
period expenditures and therefore are deferred in the funds. 92,535

Internal service funds are used by management to charge  
the costs of activities, such as insurance, to individual  
funds. The assets and liabilities of internal service funds  
are included in the governmental activities in the Statement of  
Net Assets. 824,656

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Net Assets - Governmental Funds	\$ 42,669,568
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The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
<b>Revenues:</b>					
<i>1000 Revenue from Local Sources (Note 4):</i>					
1110 Ad Valorem Taxes	\$ 1,784,498	\$ 844,896	\$ 400,170	\$ -	\$ 3,029,564
1120 Prior Years' Ad Valorem Taxes	54,546	19,362	9,249	-	83,157
1140 Gross Receipts Taxes	82,076	-	-	-	82,076
1190 Penalties and Interest on Taxes	10,893	3,791	1,826	-	16,510
1310 Regular Day School Tuition	46,279	-	-	-	46,279
1500 Earnings on Investments and Deposits	34,312	10,910	(65)	487,000	532,157
<i>1700 Cocurricular Activities:</i>					
1710 Admissions	17,903	-	-	-	17,903
1740 Rentals	295	-	-	-	295
1790 Other Pupil Activity Income	4,172	-	-	-	4,172
<i>1900 Other Revenue from Local Sources:</i>					
1910 Rentals	979	-	-	-	979
1950 Refund of Prior Year's Expenditures	1,596	-	-	-	1,596
1980 Day Care Services	96,273	-	-	-	96,273
1990 Other	7,332	-	-	-	7,332
2110 County Apportionment	211,308	-	-	-	211,308
<i>3000 Revenue from State Sources:</i>					
3110 Unrestricted Grants-in-Aid	8,927,493	-	-	-	8,927,493
3120 Restricted Grants-in-Aid	-	-	1,124,751	-	1,124,751
3320 Tuition - Regular	6,222	-	-	-	6,222
3900 Other State Revenue	-	2,624	-	-	2,624
<i>4000 Revenue from Federal Sources:</i>					
4110 Unrestricted Grants-in-Aid Received					
Directly from Federal Government	-	-	-	7,294,036	7,294,036
4120 Unrestricted Grants-in-Aid Received from					
Federal Government Through State	2,339	-	-	-	2,339
4140 Restricted Grants-in-Aid Received					
Directly from Federal Government	13,895	-	-	-	13,895
4150-4199 Restricted Grants-in-Aid Received					
from Federal Government Through State	518,082	12,635	667,220	-	1,197,937
4900 Other Federal Revenue	1,837	230,474	-	-	232,311
<b>Total Revenues</b>	<b>11,822,330</b>	<b>1,124,692</b>	<b>2,203,151</b>	<b>7,781,036</b>	<b>22,931,209</b>
<b>Expenditures:</b>					
<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	4,224,511	402,785	-	-	4,627,296
1120 Middle/Junior High	2,534,359	250,902	-	-	2,785,261
1130 High School	2,492,849	160,248	-	-	2,653,097
1140 Preschool Services	135,027	-	-	-	135,027
1190 Other Regular Programs	13,895	-	-	-	13,895
<i>1200 Instruction - Special Programs:</i>					
1220 Programs for Special Education	-	2,474	1,910,146	-	1,912,620
1250 Culturally Different	42,004	-	-	-	42,004
1270 Educationally Deprived	284,319	-	-	-	284,319
1290 Other Special Programs	15,078	-	-	-	15,078
<i>2100 Support Services - Pupils:</i>					
2110 Attendance and Social Work	30,472	-	46,329	-	76,801
2120 Guidance	413,706	-	54,148	-	467,854
2130 Health	4,537	-	134,741	-	139,278
2140 Psychological	-	-	63,000	-	63,000
2150 Speech Pathology	-	-	196,670	-	196,670
2170 Student Therapy Services	-	-	89,186	-	89,186

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
<i>2200 Support Services - Instructional Staff:</i>					
2210 Improvement of Instruction	240,931	-	-	-	240,931
2220 Educational Media	740,664	84,106	-	-	824,770
<i>2300 Support Services - General:</i>					
2310 Board of Education	89,745	5,526	-	-	95,271
2320 Executive Administration	276,671	-	-	-	276,671
<i>2400 Support Services - School:</i>					
2410 Office of the Principal	931,807	-	-	-	931,807
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	230,723	-	-	-	230,723
2530 Facilities Acquisition and Construction	-	61,663	-	-	61,663
2540 Operation and Maintenance of Plant	1,966,751	3,000	-	-	1,969,751
2550 Pupil Transportation	590,112	1,908	-	-	592,020
2570 Internal Services	55,252	-	-	-	55,252
<i>2600 Support Services - Central:</i>					
2630 Information	12,541	-	-	-	12,541
2640 Staff	90,098	-	-	-	90,098
2660 Data Processing	11,958	-	-	-	11,958
<i>2700 Support Services - Special Education:</i>					
2710 Administrative Costs	-	-	230,622	-	230,622
2730 Transportation Costs	-	-	158,352	-	158,352
2750 Other Special Education Costs	-	-	81,299	-	81,299
<i>3000 Community Services:</i>					
3400 Public Library	4,874	800	-	-	5,674
3500 Custody and Care of Children	130,696	-	-	-	130,696
3900 Other	4,300	-	-	-	4,300
4500 Early Retirement	250,780	-	-	-	250,780
<i>6000 Co-curricular Activities:</i>					
6100 Male Activities	83,349	-	-	-	83,349
6200 Female Activities	43,237	-	-	-	43,237
6900 Combined Activities	416,032	90,177	-	-	506,209
7500 Capital Outlay	-	574,068	-	-	574,068
<b>Total Expenditures</b>	<b>16,361,278</b>	<b>1,637,657</b>	<b>2,964,493</b>	<b>-</b>	<b>20,963,428</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(4,538,948)</b>	<b>(512,965)</b>	<b>(761,342)</b>	<b>7,781,036</b>	<b>1,967,781</b>
<b>Other Financing Sources (Uses):</b>					
5110 Transfers In (Note 7)	6,328,639	636,092	899,760	-	7,864,491
5130 Sale of Surplus Property	309	3,330	-	-	3,639
8110 Transfers Out (Note 7)	-	(12,466)	-	(7,825,562)	(7,838,028)
<b>Total Other Financing Sources (Uses)</b>	<b>6,328,948</b>	<b>626,956</b>	<b>899,760</b>	<b>(7,825,562)</b>	<b>30,102</b>
<b>Net Change in Fund Balances</b>	<b>1,790,000</b>	<b>113,991</b>	<b>138,418</b>	<b>(44,526)</b>	<b>1,997,883</b>
<b>Fund Balance -- July 1, 2007</b>	<b>288,507</b>	<b>1,223,683</b>	<b>60,483</b>	<b>16,408,810</b>	<b>17,981,483</b>
<b>Fund Balance -- June 30, 2008</b>	<b>\$ 2,078,507</b>	<b>\$ 1,337,674</b>	<b>\$ 198,901</b>	<b>\$ 16,364,284</b>	<b>\$ 19,979,366</b>

The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR YEAR ENDED JUNE 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ 1,997,883

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlays as expenditures;  
however, in the Statement of Activities the cost of those  
assets is allocated over their estimated useful lives and  
reported as depreciation expense. This is the amount by  
which depreciation expense exceeded capital outlays in the  
current period. (878,928)

The fund financial statement property tax accruals differ from the  
the government wide statement property tax accruals as the fund  
financial statements require the amounts to be "available." 5,458

Governmental funds recognize expenditures for amounts of compensated  
absences and voluntary separation actually paid to employees with current  
financial resources. Amounts of compensated absences earned by employees  
are not recognized in the funds. In the Statement of Activities, expenses for  
these benefits are recognized when employees earn leave or elect to retire early. (68,130)

Internal service funds are used by management to charge  
the costs of certain activities, such as insurance, to individual  
funds. The net expenses of the internal service funds is reported  
with governmental activities. (247,205)

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Change in Net Assets of Governmental Activities	\$ 809,078
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The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**PROPRIETARY FUND BALANCE SHEET  
JUNE 30, 2008**

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
<b>ASSETS:</b>		
<i>Current Assets:</i>		
101 Cash and Cash Equivalents (Note 2)	\$ 286,698	\$ 970,362
120 Accounts Receivable	-	11,339
135 Accrued Interest	-	1,450
170 Inventory of Supplies (Note 3)	20,779	-
172 Inventory of Donated Food (Note 3)	6,404	-
<b>Total Current Assets</b>	<b>313,881</b>	<b>983,151</b>
<i>Noncurrent Assets (Note 5):</i>		
204 Equipment	130,056	-
Less: Accumulated Depreciation	(96,514)	-
<b>Total Noncurrent Assets</b>	<b>33,542</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 347,423</b>	<b>\$ 983,151</b>
<b>LIABILITIES:</b>		
<i>Current Liabilities:</i>		
402 Accounts Payable	\$ 17	\$ -
409 Incurred But Not Reported Claims (Note 10)	-	158,495
<b>Total Current Liabilities</b>	<b>17</b>	<b>158,495</b>
<b>NET ASSETS:</b>		
706 Invested in Capital Assets	33,542	-
708 Unrestricted Net Assets (Note 10)	313,864	824,656
<b>Total Net Assets</b>	<b>347,406</b>	<b>824,656</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 347,423</b>	<b>\$ 983,151</b>

The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
<b>Operating Revenue:</b>		
<i>Sales:</i>		
1610 To Pupils	\$ 398,204	\$ -
1620 To Adults	10,595	-
1630 A la Carte	57,860	-
1970 Self-Insurance Premiums	-	1,387,777
<b>Total Operating Revenue</b>	<b>466,659</b>	<b>1,387,777</b>
<b>Operating Expenses:</b>		
<i>2560 Food Service:</i>		
100 Salaries	304,885	-
200 Employee Benefits	90,685	-
300 Purchased Services	10,687	-
400 Supplies	46,308	-
461 Cost of Sales - Purchased Food	401,612	-
462 Cost of Sales - Donated Food	38,734	-
910 Depreciation - Local Funds	1,583	-
4620 Self Insurance Costs (Note 10)	-	1,459,438
4900 Other Premiums	-	173,760
<b>Total Operating Expenses</b>	<b>894,494</b>	<b>1,633,198</b>
<b>Operating Loss</b>	<b>(427,835)</b>	<b>(245,421)</b>
<b>Nonoperating Revenue:</b>		
<i>Local Sources:</i>		
1510 Investment Earnings	-	24,679
1950 Refund of Prior Year's Expenditures	70	-
<i>State Sources:</i>		
3810 Cash Reimbursements	4,884	-
<i>Federal Sources:</i>		
4810 Cash Reimbursements	376,773	-
4820 Donated Food	37,486	-
<b>Total Nonoperating Revenue</b>	<b>419,213</b>	<b>24,679</b>
8110 Transfers Out (Note 7)	-	(26,463)
<b>Change in Net Assets</b>	<b>(8,622)</b>	<b>(247,205)</b>
<b>Net Assets -- Beginning</b>	<b>356,028</b>	<b>1,071,861</b>
<b>Net Assets -- Ending</b>	<b>\$ 347,406</b>	<b>\$ 824,656</b>

The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**PROPRIETARY FUND STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Cash Flows from Operating Activities:</b>		
Receipts from Customers	\$ 466,659	\$ -
Receipts from Interfund Services Provided	-	1,376,438
Payments to Suppliers	(447,948)	-
Payments to Employees	(395,570)	-
Claims Paid	-	(1,444,689)
Other Disbursements	-	(173,760)
<b>Net Cash Used in Operating Activities</b>	<b>(376,859)</b>	<b>(242,011)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Operating Subsidies	386,447	-
Transfer to General Fund	-	(26,463)
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>386,447</b>	<b>(26,463)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Purchase of Equipment	(25,661)	-
<b>Cash Flows from Investing Activities:</b>		
Cash Received for Interest	-	26,463
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(16,073)</b>	<b>(242,011)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>302,771</b>	<b>1,212,373</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 286,698</b>	<b>\$ 970,362</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating Loss	\$ (427,835)	\$ (245,421)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</i>		
Depreciation Expense	1,583	-
Value of Donated Commodities Used	38,734	-
<i>Change in Assets and Liabilities:</i>		
Inventories	10,911	-
Accounts Receivable	-	(11,339)
Accounts and Other Payables	(252)	14,749
<b>Net Cash Used in Operating Activities</b>	<b>\$ (376,859)</b>	<b>\$ (242,011)</b>
<b>Noncash Investing, Capital and Financing Activities:</b>		
Value of Commodities Received	\$ 37,486	\$ -

The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2008**

	<b>Private-Purpose Trust Fund</b>	<b>Agency Funds</b>
<b><u>ASSETS:</u></b>		
Cash and Cash Equivalents (Note 2)	\$ 600	\$ 63,490
<b><u>LIABILITIES:</u></b>		
Amounts Held for Others	-	\$ 63,490
<b><u>NET ASSETS:</u></b>		
Held in Trust for Scholarships	\$ 600	-

The accompanying notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Private-Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Contributions and Donations	\$ 400
<b>DEDUCTIONS</b>	
Scholarships Awarded	1,200
<b>Change in Net Assets</b>	(800)
<b>Net Assets -- Beginning</b>	1,400
<b>Net Assets -- Ending</b>	\$ 600

The accompanying notes are an integral part of this statement.

## **DOUGLAS SCHOOL DISTRICT 51-1**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

#### **(1) Summary of Significant Accounting Policies**

##### **a. Financial Reporting Entity**

The Funds included in this report are controlled by or dependent upon the Douglas Board of Education.

The Douglas School District (the District) participates in a cooperative service unit with several other school districts. See Note 9 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the District.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

The reporting entity of Douglas School District No. 51-1, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

##### **b. Basis of Presentation**

###### *Government-Wide Financial Statements:*

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Eliminations have been made to prevent the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and Impact Aid, are presented as general revenues.

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenue, and expenditures or expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

## DOUGLAS SCHOOL DISTRICT 51-1

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2008

#### (1) Summary of Significant Accounting Policies (Continued)

##### b. Basis of Presentation (Continued)

###### *Fund Financial Statements (Continued):*

A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the District financial reporting entity are described below within their respective fund types:

###### Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all of the general operational costs of the District, excluding the Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types – Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the District include the following:

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of, or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the District. This fund is financed by grants and property taxes. This is a major fund.

Impact Aid Fund – A fund established by SDCL 13-16-30 and 13-16-31 to account for the receipt of federal funds under the provisions of P.L. 103-382, title VII for basic support. No expenditures may be directly charged to this fund. This is a major fund.

###### Proprietary Funds:

Enterprise Fund Types – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The only Enterprise Fund is the Food Service Fund.

Food Service Fund - A fund used to record the financial transactions related to the K-12 food service operations. This fund is financed by user charges and grants. This is a major fund.

Internal Service Fund Types – Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the District, or to other governments, on a cost-reimbursement basis. The Health Insurance, Dental Insurance, and Unemployment Insurance Funds are internal service funds maintained by the District. Internal service funds are never considered to be major funds.

## DOUGLAS SCHOOL DISTRICT 51-1

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2008

#### (1) Summary of Significant Accounting Policies (Continued)

##### **b. Basis of Presentation (Concluded)**

###### Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Fund Types – Private-Purpose Trust Funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

Agency Fund Types – Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since Agency Funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. The other Agency Funds account for the monies contributed by employees for health and dependent care expenses.

##### **c. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

###### *Measurement Focus:*

###### Government-Wide Financial Statements:

In the Government-Wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

###### Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

###### *Basis of Accounting:*

###### Government-Wide Financial Statements:

In the Government-Wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

###### Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**c. Measurement Focus and Basis of Accounting (Continued)**

*Basis of Accounting (Continued):*

Fund Financial Statements (Continued):

Under the modified accrual basis of accounting, receivables may be measurable, but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. For the District, these consist primarily of property taxes.

Expenditures generally are recognized when the related fund liability is incurred.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds apply any FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

**d. Interfund Eliminations and Reclassifications**

Government-Wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

**e. Capital Assets**

Capital assets include land, buildings, machinery and equipment, improvements, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**e. Capital Assets (Continued)**

Government-Wide Financial Statements (Continued):

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Government-Wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings, improvements, and equipment is straight-line. Land is an inexhaustible capital asset and is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	10-60 years
Improvements Other than Buildings	10-20 years
Equipment	10-20 years

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

**f. Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of vacation payable, voluntary separation (early retirement benefits) payable, and sick leave/severance payable.

Annual vacation is earned by the employees at the rate of 10 to 20 days per year based on an employee's number of years of service. Upon termination, employees are entitled to receive compensation for their accrued vacation at their current rate of pay. The amount of this compensation shall not exceed vacation time earned during a two-year period.

Certified employees may participate in a voluntary separation program. Upon meeting certain criteria, cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years) may be paid in one payment or multiple payments to the eligible employees upon termination. The District's total payments for voluntary separation may not exceed two percent of the budget for certified instructional salaries in any given year. A long-term liability is recognized for the total benefits calculated to be payable in future periods. As of June 30, 2008, there are six employees that have applied and been approved for separation.

Sick leave/severance pay is earned by the employees at the rate of 6 to 15 days per year based on annual hours of work. Upon termination, administrators, directors, classified and certified employees attaining age 45 with at least ten years of service are entitled to receive compensation for their respective accrued sick leave balance at one-half of their accumulated balance at a rate equal to an average of the employee's daily rate of pay over the five-year period immediately preceding retirement, in the form of a severance bonus.

Funding for annual leave, voluntary separation, and sick leave is expended in the General Fund and the Special Education fund.

## **DOUGLAS SCHOOL DISTRICT 51-1**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)** **JUNE 30, 2008**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **f. Long-Term Liabilities (Continued)**

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The payment of these long-term liabilities is reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

##### **g. Program Revenues**

In the Government-Wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

##### **h. Proprietary Funds Revenue and Expense Classifications**

In the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

##### **i. Cash and Cash Equivalents**

The District pools its cash resources for depositing and investing purposes. Accordingly, the District has access to its cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash and cash equivalents, including for the purpose of the Statement of Cash Flows.

##### **j. Equity Classifications**

###### Government-Wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Concluded)**

**j. Equity Classifications (Continued)**

**Fund Financial Statements:**

Governmental fund equity is classified as fund balance and may distinguish between “reserved” and “unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for the Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

**k. Application of Net Assets**

It is the District’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**(2) Deposits and Investments**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

**Deposits** - The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating, which may not be less than “AA,” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2008, the District’s cash and investments consisted only of checking, savings, and money market accounts. All of these accounts are insured or collateralized in the District’s name. State law limits eligible investments for the District; therefore, the District has no investment policy that would further limit its investment choices or limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Additionally, as of June 30, 2008, none of the District’s deposits were exposed to custodial credit risk nor were more than five percent of the District’s investments invested in one issuer.

**Assignment of Investment Income** - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from investments to the General Fund. Accordingly, investment income is recorded in the fund making the investment and is transferred to the General Fund.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2008**

**(3) Inventory**

Inventory of the business-type activities is valued at the lower of cost or market value. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

In the governmental activities and fund financial statements, inventory is initially recorded as assets and charged to expense in the various functions of government as they are consumed.

Inventories in the General Fund consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**(4) Property Tax**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1. They are payable in two installments on or before the following April 30 and October 31. The counties bill and collect the District's taxes and remit them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable, which is not intended to be used to finance the current year's appropriations and therefore is not susceptible to accrual, has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the availability period.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(5) Changes in Capital Assets**

A summary of changes in capital assets in governmental funds for the year ended June 30, 2008, is as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Governmental Activities:</b>				
Capital Assets, not Depreciated:				
Land	\$ 121,900	\$ -	\$ -	\$ 121,900
Construction Work in Progress	183,705	295,195	(42,073)	436,827
	<u>305,605</u>	<u>295,195</u>	<u>(42,073)</u>	<u>558,727</u>
Capital Assets, Depreciated:				
Buildings	33,206,549	95,612	-	33,302,161
Improvements Other Than Buildings	2,624,281	-	-	2,624,281
Equipment -- Local Funds	2,168,132	225,334	(34,984)	2,358,482
Equipment -- Federal Funds	172,000	-	-	172,000
	<u>38,170,962</u>	<u>320,946</u>	<u>(34,984)</u>	<u>38,456,924</u>
Less Accumulated Depreciation for:				
Buildings	12,361,291	1,057,526	-	13,418,817
Improvements Other Than Buildings	1,115,155	156,547	-	1,271,702
Equipment -- Local Funds	1,227,617	221,723	(34,984)	1,414,356
Equipment -- Federal Funds	120,400	17,200	-	137,600
	<u>14,824,463</u>	<u>1,452,996</u>	<u>(34,984)</u>	<u>16,242,475</u>
<b>Governmental Capital Assets, Net</b>	<b>\$ 23,652,104</b>	<b>\$ (836,855)</b>	<b>\$ (42,073)</b>	<b>\$ 22,773,176</b>

Construction work in progress at June 30, 2008, includes an irrigation project and a security camera project. As of June 30, 2008, \$143,251 and \$293,576 has been expended towards these projects, respectively, but there are no contract obligations for either project.

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$ 1,111,512
Support Services	279,722
Co-curricular Activities	61,762
<b>Total Depreciation Expense</b>	<b>\$ 1,452,996</b>

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(5) Changes in Capital Assets (Continued)**

Capital asset activity in business-type funds for the fiscal year ended June 30, 2008, is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>
<b>Business-Type Activities:</b>				
Capital Assets, Depreciated:				
Equipment	\$ 104,395	\$ 25,661	\$ -	\$ 130,056
Less Accumulated Depreciation for:				
Equipment	94,931	1,583	-	96,514
<b>Business-Type Capital Assets, Net</b>	<b>\$ 9,464</b>	<b>\$ 24,078</b>	<b>\$ -</b>	<b>\$ 33,542</b>

**(6) Long-Term Liabilities**

A summary of the changes in long-term liabilities for the year ended June 30, 2008, is as follows:

	<u>2007</u>	<u>Benefits Earned</u>	<u>Benefits Paid</u>	<u>2008</u>	<u>Due Within One Year</u>
Vacation Liability	\$ 103,278	\$ 98,825	\$ (84,290)	\$ 117,813	\$ 99,000
Voluntary Separation Liability	38,757	324,127	(250,532)	112,352	53,732
Severance Pay (Sick Leave) Liability	790,000	88,227	(108,227)	770,000	109,000
General Long-Term Debt	\$ 932,035	\$ 511,179	\$ (443,049)	\$ 1,000,165	\$ 261,732

The remaining voluntary separation liability is payable as follows for the fiscal years ending June 30:

2009	\$ 53,732
2010	<u>58,620</u>
	<u>\$112,352</u>

These long-term liabilities will be paid from the General Fund and the Special Education Fund.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(7) Individual Fund Interfund Transactions**

During the fiscal year, the following amounts were transferred between funds:

	Transfer In	Transfer Out
General Fund	\$ 6,328,639	\$ -
Capital Outlay Fund	636,092	(12,466)
Special Education Fund	899,760	-
Impact Aid Fund	-	(7,825,562)
Internal Service Fund	-	(26,463)
<b>Total</b>	<b>\$ 7,864,491</b>	<b>\$ (7,864,491)</b>

Transfers are used to move unrestricted revenues collected in the Impact Aid Fund to other funds to finance various programs in accordance with budgetary authorizations. Transfers are also used to move interest earnings from the fund making the investment to the General Fund.

**(8) Retirement Plan**

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SD Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to SDRS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,047,753, \$849,206, and \$897,320, respectively, equal to the required contribution each year.

**(9) Joint Ventures**

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (the Co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2008, the District paid \$246,177 for services provided by the Co-op. The Co-op's governing board (the Board) is composed of one representative from each member school district, who is a school board member. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described below.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(9) Joint Ventures (Continued)**

The members of the Co-op and their relative percentage participation are as follows:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative, Sturgis, South Dakota. At June 30, 2008, this joint venture had total fund equity of \$710,642 (unaudited) and long-term debt of \$972,285 (unaudited).

**(10) Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2008, the District managed its risks as follows:

Liability/Property/Workmen's Compensation Insurance:

The District purchases the above insurance coverage from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The District has elected to be self-insured and retain all risk for liabilities arising from claims for unemployment benefits.

The District has designated equity in the Unemployment Insurance - Internal Service Fund in the amount of **\$102,697** for the payment of future unemployment benefits.

During the year ended June 30, 2008, **\$3,526** in claims for unemployment benefits were filed and paid. At June 30, 2008, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Employee Health Insurance:

The District has self-insurance for health insurance through a third-party. The health insurance plan is accounted for in an Internal Service Fund of the District. As part of the health care coverage, the District purchases re-insurance which pays in excess of \$45,000 per employee and claims in excess of \$1,264,461 in the aggregate. Accounts payable for claims incurred but not paid of **\$158,495** is recorded in an Internal Service Fund in the Proprietary Fund Balance Sheet. The accrual is based on payments made subsequent to year end for claims incurred prior to June 30, 2008. The District has net assets in the Health Insurance Internal Service Fund in the amount of **\$720,531** and **\$1,427** for the payment of health and dental insurance claims, respectively.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2008

(10) Risk Management (Continued)

Employee Health Insurance (Continued):

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2007 were as follows:

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2006	\$ 77,098
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	955,686
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	889,038
	<hr/>
Incurred But Not Reported Claims at June 30, 2007	\$ 143,746
	<hr/>

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2008 were as follows:

	<u>Health Insurance</u>
Benefit Claims Payable at June 30, 2007	\$ 143,746
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,459,438
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	1,444,689
	<hr/>
Incurred But Not Reported Claims at June 30, 2008	\$ 158,495
	<hr/>

## REQUIRED SUPPLEMENTARY INFORMATION

**DOUGLAS SCHOOL DISTRICT 51-1**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**

**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual -</b>	
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>Variance</b>
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 1,439,000	\$ 1,439,000	\$ 1,784,498	\$ 345,498
1120 Prior Years' Ad Valorem Taxes	85,000	85,000	54,546	(30,454)
1140 Gross Receipts Taxes	78,000	78,000	82,076	4,076
1190 Penalties and Interest on Taxes	15,000	15,000	10,893	(4,107)
1310 Regular Day School Tuition	45,000	45,000	46,279	1,279
1500 Earnings on Investments and Deposits	260,000	260,000	34,312	(225,688)
<i>1700 Cocurricular Activities:</i>				
1710 Admissions	10,000	10,000	17,903	7,903
1740 Rentals	-	-	295	295
1790 Other Pupil Activity Income	-	-	4,172	4,172
<i>1900 Other Revenue from Local Sources:</i>				
1910 Rentals	-	-	979	979
1950 Refund of Prior Year's Expenditures	-	-	1,596	1,596
1980 Day Care Services	85,000	85,000	96,273	11,273
1990 Other	5,000	5,000	7,332	2,332
2110 County Apportionment	250,000	250,000	211,308	(38,692)
<i>3000 Revenue from State Sources:</i>				
3110 Unrestricted Grants-in-Aid	9,517,626	9,517,626	8,927,493	(590,133)
3320 Tuition - Regular	-	-	6,222	6,222
<i>4000 Revenue from Federal Sources:</i>				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	-	-	2,339	2,339
4140 Restricted Grants-in-Aid Received Directly from Federal Government	20,607	20,607	13,895	(6,712)
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	533,296	533,296	518,082	(15,214)
4900 Other Federal Revenue	9,500	9,500	1,837	(7,663)
<b>Total Revenues</b>	<b>12,353,029</b>	<b>12,353,029</b>	<b>11,822,330</b>	<b>(530,699)</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	4,691,746	4,691,746	4,224,511	467,235
1120 Middle/Junior High	2,673,999	2,673,999	2,534,359	139,640
1130 High School	2,573,047	2,573,047	2,492,849	80,198
1140 Preschool Services	129,003	135,027	135,027	-
1190 Other Regular Programs	20,607	20,607	13,895	6,712
<i>1200 Instruction - Special Programs:</i>				
1210 Gifted and Talented	50,815	50,815	-	50,815
1250 Culturally Different	43,997	43,997	42,004	1,993
1270 Educationally Deprived	285,828	287,818	284,319	3,499
1290 Other Special Programs	16,670	16,670	15,078	1,592

**DOUGLAS SCHOOL DISTRICT 51-1**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**

**GENERAL FUND (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	34,500	34,500	30,472	4,028
2120 Guidance	448,481	448,481	413,706	34,775
2130 Health	5,300	5,300	4,537	763
<i>2200 Support Services - Instructional Staff:</i>				
2210 Improvement of Instruction	250,436	256,609	240,931	15,678
2220 Educational Media	765,626	766,847	740,664	26,183
<i>2300 Support Services - General:</i>				
2310 Board of Education	103,592	103,592	89,745	13,847
2320 Executive Administration	275,538	277,169	276,671	498
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	835,931	931,806	931,807	(1)
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	230,874	230,874	230,723	151
2540 Operation and Maintenance of Plant	2,097,801	2,133,228	1,966,751	166,477
2550 Pupil Transportation	592,391	629,091	590,112	38,979
2570 Internal Services	62,023	62,023	55,252	6,771
<i>2600 Support Services - Central:</i>				
2630 Information	15,000	15,000	12,541	2,459
2640 Staff	95,685	95,685	90,098	5,587
2660 Data Processing	15,000	15,000	11,958	3,042
<i>3000 Community Services:</i>				
3400 Public Library	5,338	5,338	4,874	464
3500 Custody and Care of Children	139,374	139,374	130,696	8,678
3900 Other	4,300	4,300	4,300	-
<i>4000 Nonprogrammed Charges:</i>				
4500 Early Retirement	166,978	250,780	250,780	-
<i>6000 Cocurricular Activities:</i>				
6100 Male Activities	91,737	91,737	83,349	8,388
6200 Female Activities	55,269	55,269	43,237	12,032
6900 Combined Activities	458,472	458,472	416,032	42,440
7000 Contingencies	186,118	(18,584)	-	(18,584)
<b>Total Expenditures</b>	<b>17,421,476</b>	<b>17,485,617</b>	<b>16,361,278</b>	<b>1,124,339</b>
<b>Excess of Revenue Under Expenditures</b>	<b>(5,068,447)</b>	<b>(5,132,588)</b>	<b>(4,538,948)</b>	<b>593,640</b>
<b>Other Financing Sources:</b>				
5110 Transfers In	5,060,374	5,060,374	6,328,639	1,268,265
5130 Sale of Surplus Property	-	-	309	309
<b>Total Other Financing Sources</b>	<b>5,060,374</b>	<b>5,060,374</b>	<b>6,328,948</b>	<b>1,268,574</b>
<b>Net Change in Fund Balances</b>	<b>(8,073)</b>	<b>(72,214)</b>	<b>1,790,000</b>	<b>1,862,214</b>
Fund Balance -- Beginning	288,507	288,507	288,507	-
<b>Fund Balance -- Ending</b>	<b>\$ 280,434</b>	<b>\$ 216,293</b>	<b>\$ 2,078,507</b>	<b>\$ 1,862,214</b>

The accompanying supplementary notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
CAPITAL OUTLAY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual -</b>	
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>Variance</b>
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 634,000	\$ 634,000	\$ 844,896	\$ 210,896
1120 Prior Years' Ad Valorem Taxes	35,000	35,000	19,362	(15,638)
1190 Penalties and Interest on Taxes	10,000	10,000	3,791	(6,209)
1500 Earnings on Investments and Deposits	-	-	10,910	10,910
3900 Other State Revenue	-	-	2,624	2,624
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	1,088,700	1,088,700	-	(1,088,700)
4150-4199 Restricted Grants-in-Aid Received				
from Federal Government Through State	-	-	12,635	12,635
4900 Other Federal Revenue	-	-	230,474	230,474
<b>Total Revenues</b>	<b>1,767,700</b>	<b>1,767,700</b>	<b>1,124,692</b>	<b>(643,008)</b>
<b>Expenditures:</b>				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	334,825	409,516	486,627	(77,111)
1120 Middle/Junior High	276,781	276,781	300,818	(24,037)
1130 High School	280,787	280,787	231,549	49,238
<i>1200 Special Programs</i>				
1220 Programs for Special Education	2,474	2,474	2,474	-
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	484,010	484,010	90,879	393,131
<i>2300 Support Services - General:</i>				
2310 Board of Education	13,500	13,500	5,526	7,974
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	28,997	30,038	-	30,038
2530 Facilities Acquisition and Construction	230,000	358,598	388,636	(30,038)
2540 Operation and Maintenance of Plant	3,000	3,000	3,000	-
2550 Pupil Transportation	26,908	29,464	29,464	-
<i>3000 Community Services:</i>				
3400 Public Library	800	800	800	-
<i>6000 Co-curricular Activities:</i>				
6900 Combined Activities	85,618	97,884	97,884	-
<b>Total Expenditures</b>	<b>1,767,700</b>	<b>1,986,852</b>	<b>1,637,657</b>	<b>349,195</b>
<b>Excess of Revenue Under Expenditures</b>	<b>-</b>	<b>(219,152)</b>	<b>(512,965)</b>	<b>(293,813)</b>
<b>Other Financing Sources (Uses):</b>				
5110 Transfers In	-	-	636,092	636,092
5130 Sale of Surplus Property	-	-	3,330	3,330
8110 Transfers Out	-	-	(12,466)	(12,466)
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>626,956</b>	<b>626,956</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>(219,152)</b>	<b>113,991</b>	<b>333,143</b>
Fund Balance -- Beginning	1,223,683	1,223,683	1,223,683	-
<b>Fund Balance -- Ending</b>	<b>\$ 1,223,683</b>	<b>\$ 1,004,531</b>	<b>\$ 1,337,674</b>	<b>\$ 333,143</b>

The accompanying supplementary notes are an integral part of this statement.

## DOUGLAS SCHOOL DISTRICT 51-1

## BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

## SPECIAL EDUCATION FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
<b>Revenues:</b>				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 289,000	\$ 289,000	\$ 400,170	\$ 111,170
1120 Prior Years' Ad Valorem Taxes	25,000	25,000	9,249	(15,751)
1190 Penalties and Interest on Taxes	5,000	5,000	1,826	(3,174)
1500 Earnings on Investments and Deposits	-	-	(65)	(65)
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	1,313,250	1,313,250	1,124,751	(188,499)
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	225,000	225,000	-	(225,000)
4150-4199 Restricted Grants-in-Aid Received				
from Federal Government Through State	537,500	537,500	667,220	129,720
<b>Total Revenues</b>	<b>2,394,750</b>	<b>2,394,750</b>	<b>2,203,151</b>	<b>(191,599)</b>
<b>Expenditures:</b>				
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	1,948,756	1,964,107	1,910,146	53,961
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	46,000	46,330	46,329	1
2120 Guidance	54,714	54,714	54,148	566
2130 Health	140,429	140,429	134,741	5,688
2140 Psychological	63,000	63,000	63,000	-
2150 Speech Pathology	400,850	400,850	196,670	204,180
2170 Student Therapy Services	107,000	107,000	89,186	17,814
<i>2700 Support Services - Special Education</i>				
2710 Administrative Costs	254,604	254,604	230,622	23,982
2730 Transportation Costs	146,191	158,352	158,352	-
2750 Other Special Education Costs	92,000	92,000	81,299	10,701
4500 Early Retirement	27,872	27,872	-	27,872
7000 Contingencies	18,584	18,584	-	18,584
<b>Total Expenditures</b>	<b>3,300,000</b>	<b>3,327,842</b>	<b>2,964,493</b>	<b>363,349</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(905,250)</b>	<b>(933,092)</b>	<b>(761,342)</b>	<b>171,750</b>
<b>Other Financing Sources:</b>				
5110 Transfers In	905,250	905,250	899,760	(5,490)
<b>Total Other Financing Sources</b>	<b>905,250</b>	<b>905,250</b>	<b>899,760</b>	<b>(5,490)</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>(27,842)</b>	<b>138,418</b>	<b>166,260</b>
Fund Balance -- Beginning	60,483	60,483	60,483	-
<b>Fund Balance -- Ending</b>	<b>\$ 60,483</b>	<b>\$ 32,641</b>	<b>\$ 198,901</b>	<b>\$ 166,260</b>

The accompanying supplementary notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**

**IMPACT AID FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual -</b>	
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>Variance</b>
<b>Revenues:</b>				
1500 Earnings on Investments and Deposits	\$ -	\$ -	\$ 487,000	\$ 487,000
4000 Revenue from Federal Sources:				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	6,700,000	6,700,000	7,294,036	594,036
<b>Total Revenues</b>	<b>6,700,000</b>	<b>6,700,000</b>	<b>7,781,036</b>	<b>1,081,036</b>
<b>Other Financing Uses:</b>				
8110 Transfers Out	(7,054,324)	(7,054,324)	(7,825,562)	(771,238)
<b>Net Change in Fund Balances</b>	<b>(354,324)</b>	<b>(354,324)</b>	<b>(44,526)</b>	<b>309,798</b>
Fund Balance -- Beginning	16,408,810	16,408,810	16,408,810	-
<b>Fund Balance -- Ending</b>	<b>\$ 16,054,486</b>	<b>\$ 16,054,486</b>	<b>\$ 16,364,284</b>	<b>\$ 309,798</b>

The accompanying supplementary notes are an integral part of this statement.

**DOUGLAS SCHOOL DISTRICT 51-1**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2008**

**1. Budgets and Budgetary Accounting**

The District followed these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the first regular board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- 2) The proposed budget is considered by the School Board at the first regular meeting held in the month of May each year.
- 3) The proposed budget is published for public review no later than July 15<sup>th</sup> each year.
- 4) Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- 5) Before October 1<sup>st</sup> of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, with the exception of Fiduciary Funds.
- 6) After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
- 7) A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- 8) If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budget when moneys are available to increase legal spending authority.
- 9) Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
- 10) Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- 11) The budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Required Supplementary Information Schedule, the purchase of a bus would be reported as an expenditure of the Support Services/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

## SINGLE AUDIT SECTION

**DOUGLAS SCHOOL DISTRICT NO. 51-1**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

The District is confident that the financial statements are accurate and is willing to accept the risk associated with the auditors preparing the financial statements, therefore, Finding 07-1 will be repeated for the year ending June 30, 2008.

The District adjusted its accounts prior to the 2008 annual audit in accordance with the corrective action plan for Finding 07-2.

Time sheets were prepared for all personnel paid from federal funds during the year ended June 30, 2008 as indicated in the corrective action plan for Finding 04-1.

## DOUGLAS SCHOOL DISTRICT NO. 51-1

### SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN JUNE 30, 2008

#### A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Douglas School District No. 51-1 (the District).
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. One significant deficiency was disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program for the District expresses an unqualified opinion.
6. The programs tested as major programs are Impact Aid, CFDA #84.041; School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555; Special Education – State Grants, CFDA #84.027; and Special Education – Preschool Grants, CFDA #84.173.
7. The threshold for distinguishing Type A and B programs was \$300,000.
8. The District was determined to be a low-risk auditee.

#### B. FINDING – Financial Statement Audit

##### Significant Deficiencies -- Not Material Weaknesses in Internal Control

###### 07-1 Finding: Preparation of Financial Statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the School Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size. However, based on this new auditing standard, it is our responsibility to inform the Board that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management. Also, it is the Board's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements.

**DOUGLAS SCHOOL DISTRICT NO. 51-1**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDING –Financial Statement Audit (Continued)**

Significant Deficiencies -- Not Material Weaknesses in Internal Control (Continued)

07-1 Finding: Preparation of Financial Statements (Continued)

Recommendation: It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. Trista Hedderman, Business Manager, is responsible for the corrective action plan for this finding.

**C. FINDINGS AND QUESTIONED COSTS – Major Federal Award Program Audit**

Significant Deficiencies -- Not Material Weaknesses in Internal Control

08-1 Finding: Payroll Allocation Documentation

Condition: Payroll certifications were not completed in fiscal year 2008 for the Special Education program, CFDA 84.027 and 84.173.

Criteria: OMB Circular A-87 requires semi-annual certifications be completed when an employee is allocated entirely to a federal program.

Questioned Costs: None

Recommendation: Payroll certifications should be completed semi-annually indicating that the employees worked solely on that program for the period covered by the certification. The certification should include a signature of approval by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Response/Corrective Action Plan: The District will incorporate a policy immediately for the completion of semi-annual certifications for the Special Education program. Trista Hedderman, Business Manager, is responsible for the corrective action plan for this finding.

**DOUGLAS SCHOOL DISTRICT NO. 51-1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Food Distribution	10.550	\$ 38,734
School Breakfast Program (Notes 2, 3 and 5)	10.553	84,302
National School Lunch Program (Notes 2, 3 and 5)	10.555	292,471
<b>Total U.S. Department of Agriculture</b>		<b>415,507</b>
<i>U.S. Department of Defense:</i>		
Direct Federal Funding:		
National Defense Authorization Act - Section 386	12.XXX	189,161
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
Taylor Grazing (Note 1)	15.299	78
National Mineral Leasing (Note 1)	15.299	2,261
<b>Total U.S. Department of the Interior</b>		<b>2,339</b>
<i>U.S. Department of Education:</i>		
Direct Federal Funding:		
Impact Aid -- Maintenance and Operations (Note 3)	84.041	8,000,261
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies	84.010	273,410
Special Education -- State Grants (P.L. 94-142) (Notes 3 and 6)	84.027	466,568
Vocational Education -- Basic Grants to States	84.048	15,079
Special Education -- Preschool Grants (P.L. 99-457) (Notes 3 and 6)	84.173	25,952
Safe and Drug-Free Schools and Communities -- State Grants (Title IV)	84.186A	15,988
Title V Part A Innovative Programs	84.298A	10,433
Enhancing Education Through Technology	84.318X	5,165
Improving Teacher Quality State Grants	84.367A	196,098
<b>Total U.S. Department of Education</b>		<b>9,008,954</b>
<b>Total</b>		<b>\$ 9,615,961</b>

**DOUGLAS SCHOOL DISTRICT NO. 51-1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

Note 1: Federal reimbursements are not based on specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 3: This represents a major federal award program.

Note 4: Basis of Presentation:  
The Accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting.

Note 5: These are a part of the Child Nutrition Cluster.

Note 6: These are a part of the Special Education Cluster.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board  
Douglas School District No. 51-1  
Meade and Pennington Counties, South Dakota

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District), Meade and Pennington Counties, South Dakota as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Part B, Finding #07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

School Board  
Douglas School District No. 51-1  
Page Two

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature and the School Board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

March 5, 2009



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

School Board  
Douglas School District No. 51-1  
Meade and Pennington Counties, South Dakota

**Compliance**

We have audited the compliance of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District), Meade and Pennington Counties, South Dakota, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, Part C as Finding 04-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The District's responses to the findings identified in our audit are described in the accompany Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature and the School Board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



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March 5, 2009